Title: The Three Retirement Calculation Factors
Host: Laurie Daniels, Jim Cale

Laurie: Hello and welcome to the CalPERS webinar "The Three Retirement Calculation Factors."

Jim: In this webinar, we'll discuss the different factors that are used to calculate your CalPERS pension. Here's our agenda for today's presentation. We're going to introduce the three retirement calculation factors. Then we're going to show you an example calculation, so you can see how they work together. We will introduce the retirement estimate calculator, and finish up with how to contact CalPERS.

As we go through today's presentation, we'll reference a few publications that you may be interested in. On our home page, www.CalPERS.ca.gov, you'll see there's a link titled "Forms & Publications Center." In this link is where you can find the publications we'll mention today and many more as well.

Let's introduce the three factors used in the calculation of your retirement. The first is Service Credit, which is your total years of service with all CalPERS employers. The second is the Benefit Factor, which is the percentage of pay you're entitled to for each year of service credit that you've earned. And the third is the Final Compensation, which is an average of your highest monthly pay rate.

When you retire, CalPERS will multiply your years of service by your benefit factor, then multiply that result by your final compensation, which will give you an unmodified allowance. The unmodified allowance is your basic pension and the highest amount you can receive when you retire.

In the coming slides, we'll review each factor in more detail so that you can understand how they work and we'll discuss how you can control these factors to help maximize your retirement benefit.

And this is a good time to emphasize the fact that your CalPERS pension is a defined benefit plan. This means it will provide you with a retirement benefit that you cannot outlive.

As we just saw, the amount of your benefit is based on a formula, not on what you contributed into the system. The money to fund your pension comes from three sources. CalPERS investment returns, which currently pay 65¢ for every pension dollar paid. It's historically been as high as 75¢. 22¢ of every dollar comes employer contributions. And finally, 13¢ of every dollar comes from our member contributions.

Laurie: Let's look at the first factor, which is service credit. Service credit is the time you accrue while on the job under a CalPERS covered employer. When we're talking about service credit, there are three possible ways to increase your balance. For everyone, there's the service credit that you earn by working. You may be eligible to purchase service credit. And finally, you may be able to convert unused sick leave to service credit at retirement.

We'll cover the first way now and discuss the other two a little further in the presentation.

Service credit is earned on a fiscal year basis from July 1st through June 30th. The amount of service credit you earn depends on your time base. Full-time employees earn 1/10th of a year of service credit for each full month worked.

Ten months of full-time employment in a fiscal year equals one full year of service credit. We define full-time employment as 40 hours per week.

Part-time and hourly employees earn service credit in direct proportion to the number of hours worked. It takes 1,720 hours in a fiscal year to equal one full year of service credit. If you earn less than that, you are pro-rated based on the actual number of hours that you work.

This might make a little bit more sense if we look at some examples. This is an example of how service credit is earned on a fiscal year basis. July 1st is the beginning of the fiscal year. If you work full-time in the month of July, you'll earn 1/10th of a year of service credit. If you continue to work full-time through the rest of the fiscal year, you'll earn another 10th of the year for each full-time month worked until you get to the end of April, when you'll have a full year of service credit.

Notice you only have to work 10 months full-time to earn a full year of service credit. Because you've earned a full year by the end of April, you won't earn service credit in May and June because you cannot earn more than one year of service credit in a fiscal year.

You may have noticed on your annual member statement that you'll see a fractional amount of years, something like 22.525 or 7.783. This is because for most of us, we don't start working on July 1st. Most of us begin working part way through the fiscal year.

In this example, we have a member who started working full-time in the middle of November. Since he only worked half a month, he earned 0.05 years of service credit for that half month. He then continued to work full-time the rest of the fiscal year. You'll notice that because he didn't have a full year of service credit by the end of April, he continued to earn service credit in May and June. At the end of this fiscal year, he had 0.750 years of service credit. If he continues to work full-time, then the next annual member statement will reflect 1.750, and the next 2.750 and so on.

Another way to increase your service credit is to purchase it. CalPERS offers several different types of service credit that you may be able to purchase prior to retirement. For information on eligibility requirements, you can review our publication “A Guide to Your CalPERS Service Credit Purchase Options.”

Some of the more common types are a redeposit of withdrawn contributions. This is if you worked for a CalPERS employer in the past, you separated from that employer and withdrew your contributions. You may have a right to redeposit those funds plus interest if you return to work as a CalPERS member.

The next is service prior to membership. An example would be if you worked for a CalPERS employer in a permanent, intermittent, part-time, temporary, on-call or seasonal position that didn’t qualify you for membership at the time. Once you become a member of CalPERS again, you may be eligible to purchase that prior time. The cost is based on your pay rate and contribution rate when you first became a CalPERS member plus accrued interest.

Military service credit is time you spent in active duty prior to becoming a CalPERS member. All state and school members, as well as public agency members, whose employer contracts for this benefit, may be eligible.
There are very specific eligibility requirements for purchasing military service credit and if you are eligible, you can purchase a maximum of four years.

There are some less common types of service credit that you may be able to purchase as well and you can review “A Guide To Your CalPERS Service Credit Purchase Options” for more details.

A common question that we hear is “Can I buy more than one type of service credit?” Well, the answer is yes. Purchasing one type of service credit does not preclude you from purchasing another type. If, for example, John had two years of active military service, then worked in a temporary position for three years with a CalPERS covered employer before becoming a member, if he wanted to he could purchase both. Being eligible for one type does not negate you from being eligible for other types.

If you have service prior to membership time or re-deposited withdrawn contributions, because of the lower cost, you may want to check into getting this time back first and then look at the present value types available to you, such as the military.

Now let’s talk about the final way that you may be able to increase your service credit, which is the ability to convert sick leave. Sick leave conversion is available to all state and school members and public agency employers must contract to offer this benefit to their employees.

Converted sick leave does not change your age of retirement or your retirement effective date. It simply increases the amount of service credit we use to determine your retirement benefit.

To be eligible for your sick leave to be used, you must retire within 120 days of your separation from employment. For most of us, we'll be on payroll one day and retire the very next. But if, for example, you separated from employment at age 47, which is too young to retire, then decided to retire after you first became eligible, you are now past the 120 days and your former employer would not be able to convert your sick leave.

Vacation and other types of leave, such as CTO, personal leave, annual leave and holiday credit cannot be converted to service credit. You may be able to run out your leave time, which may earn you more service credit. You should contact your personnel office about how your unused leave time is handled.

There is no minimum or maximum amount of sick leave time that may be reported by your employer. Since we use years of service in the pension calculation, to get an idea of how much your unused sick leave may increase your pension, you'll need to convert your sick leave hours into years. It's easy to do with the calculator. Since 2000 hours of unused sick leave equals one year of serviced credit, simply divide your hours of sick leave by 2000 to convert your sick leave from hours to years.

In this example, if you have 632 hours of sick leave, you divide that 632 by 2000 and you get 0.316 years of service credit. That's about a third of a year.

Jim: Now we'll move on to the second factor; retirement formulas and benefit factors.

The benefit factor is the second factor used to calculate your pension. There are several different retirement formulas for state, school and public agency members. Your retirement formula is determined by your employer's contract with CalPERS.

For example, in the slide, you see that State and School Miscellaneous 2% at 55. This is the name of the retirement formula. And what the retirement formula does is it defines the range of percentages of final compensation you'll receive in your pension for each year of service credit in your account based on your age at retirement. We're going to explain this a little further over the next few slides.

No matter what formula your employer contracts for, almost all benefit factors start at age 50 or 52, depending on when you were first hired. The factors increase with each quarter year of age until you reach the maximum age under your formula. State and local safety members working under the 3% at 50 formula do not change their factors with age because the benefit factor is fixed at 3%.

Your benefit factor is based on the retirement formula contracted for by your employer and your age at retirement and it determines the percentage of the final compensation you'll receive for each year of service credit.

To calculate your percentage of final compensation, we'll multiply your benefit factor by your years of service. Your benefit factor increases each quarter year of age or every three months, based on your birthday. This means that there are four times a year when your benefit factor will increase to a higher level.

For example, if your birthday is March 17th, then your birthday quarters will be, the first one, March 17th, your birthday, at a quarter year would be June 17th and a half year September 17th and December 17th would put you at the three-quarter year mark.

So you might want to pick a retirement date that coincides with one of your birthday quarters in order to receive a higher percentage of your final compensation. You'll need to retire on or after the quarter to receive the increased benefit factor.

Now this is an example of a benefit factor chart for the Schools and State 2% at 55 formula. Now don't worry if you don't work under this formula. The percentages for other formulas will be different, but the concepts are the same.

The percentages you see within the chart are the actual benefit factors available to you, depending on your age at retirement. Notice that the top of the chart is aligned for birthday quarters. We're using the same dates we mentioned in the previous example. The column on the left is your age at retirement. You'll see that it starts at age 50, which is the earliest retirement age for this formula and increases up to the maximum age under the formula, which is 63.

Once you reach the maximum age, your benefit factor no longer increases. Now that doesn't mean that your pension can no longer increase. You can still boost your pension by increasing one or both of the other two factors, service credit or your final compensation.

On this chart, we've highlighted age 55. So if this member were to retire on their birthday of March 17th, their benefit factor would be an even 2%. If this member decided to wait and retire on September 17th at age 55 ½, then their benefit factor would increase to 2.032%. Remember, to get the higher factor, you have to retire on or after the birthday quarter. In this example, if the member retired on September 16th, they'd stay with the previous lower factor of 2.016%.

You can find your formula chart in our member booklet "Your Benefits Your Future." There's five different versions, depending on your employment category. There is one for State Miscellaneous and Industrial members, one for State Safety, Local Miscellaneous, Local Safety and the Schools employees.

Laurie: Now for the last factor. So what is final compensation? First it will be helpful to define what compensation is, then we can talk about final compensation.

Compensation is defined as payment to employees for services performed during normal work hours, or for time during which employees used vacation, CTO, sick leave, et cetera. Your employer reports your full-time pay rate to CalPERS, even if you're working part-time since the full-time pay rate is used in the calculation of the final compensation.

Your final compensation may include items of special compensation that can be reported in addition to your base pay rate. You want to check with your employer to find out what types of pay are being reported for you.

The final compensation amount is based on your full-time monthly pay rate as reported by your employer, not your earnings. It's also based on the consecutive 12 or 36-month period, as determined by your employer's contract and when you were first hired.

For example, if you work part-time, your earnings are lower. CalPERS will still use the pay rate as if you were working full-time. However, you are earning less service credit. For Safety members, there is a cap on the percentage you can receive and for all other members, there's no limit on your percentage.

The final compensation for School employees, who work 10 or 11 months in a year will be calculated based on the actual number of months worked within the period to be used. This averaging will lower the final compensation.

Let's look at an example of final compensation calculation for a member who plans to retire on November 1st. Their final compensation period in this case is 12 months. The final compensation will start on November 1st of the previous year, 12 months prior to the retirement date.

For the first six months, from November 1st to April 30th, they earned $2900.00 per month. On May 1st, they'll receive a raise, so the last six months from May 1st to October 31st, their pay rate is $3100.00 per month. We'll add this together and we'll take the total amount of $36,000.00, divide it by 12 months to arrive at the average final compensation of $3000.00.

Now let's talk about the final compensation adjustment. If your CalPERS service is coordinated with social security, which means you contribute to social security under your CalPERS employer, then the amount of your CalPERS contributions is not based on your full monthly earnings. There is an exclusion amount. Because of this exclusion amount, there's an adjustment of $133.33 made to your final compensation. The adjustment is the same no matter how much you earn.

This is a one-time adjustment during the calculation process. It is not a monthly deduction to your retirement check. However, this one-time adjustment will affect your retirement benefit. There's no adjustment made if your service is not coordinated with social security. This adjustment is automatically calculated in your CalPERS retirement estimates.

In this example, we'll use a member with an average final compensation of $3000.00 and who pays into social security. Less the adjusted amount of $133.33, this will result in an adjusted final compensation of $2,866.67. This adjusted final compensation is what will be used to calculate the pension.

If you have multiple CalPERS employers, you may have some service that is coordinated with social security and some that isn't. The adjustment is only applied to the service that is coordinated with social security.

Jim: So let's look at how the three factors work together with a couple of examples. Now as we said before, the retirement calculation is based on this formula. It's not based on how much you contributed into the plan.

In this first example, we have a member who worked for an employer who contracts with a 2% at 55 retirement formula. They're going to retire with 25 years of service on their 55th birthday, so the benefit factor is an even 2%.

So I'm going to multiply those 25 years by the 2% benefit factor, which results in 50% of the final compensation. So we multiply that 50% by the adjusted final compensation of $2,866.67 and that leaves them with an unmodified pension of $1,433.00 a month for the rest of their lives.

So what would happen if they decided to work six more months under a higher pay rate? Well, not only has the final compensation increased, but the other factors will increase as well. By earning six more months of service credit, they'll now have 25.6 years of service and with the benefit factor increased to 2.032% for retiring at 55 ½, the result is 51.86% with the higher final compensation of $2966.67 or almost $110.00 more per month than in the first example.

So remember, any increase in one or more of the three factors can mean a higher pension at retirement. And you can use the retirement estimate calculator in my|CalPERS to look at various scenarios, such as changes in the birthday quarters or your pay rates.

Laurie: Now we'll introduce the retirement estimate calculator in my|CalPERS. It's important to note that there are a few limitations with this calculator. Please remember that this is an estimate only. Your actual benefit is determined when you apply for retirement. Changes in pay rate or time base can affect the final calculation.

This tool cannot calculate all types of retirement and/or payment options. If an estimate cannot be produced for the type of retirement calculation you're looking for and you're within 12 months of your retirement date, you'll need to submit the retirement allowance estimate request form for a CalPERS generated estimate.

This would also apply if you have a community property claim on your account. The retirement estimator cannot provide an estimate based on specific community property court-ordered provisions.

In this example, we've already logged into my|CalPERS and selected the Retirement Estimate Calculator link under the Retirement tab. To get started on our estimate, we'll select the Start A New Estimate button. The calculator requires some information from you, such as when you want to retire. my|CalPERS automatically provides the final compensation amount based on payroll reported. This field can be changed if you anticipate a higher rate in the future.

You'll let us know your work status. Are you part-time, full-time or maybe you no longer work for a CalPERS covered employer. If applicable, you can enter the amount of sick leave. If you have someone that you would like to provide a lifetime monthly benefit to or a survivor, you'll provide this information next. Once you've completed all of the information, this will bring you to the estimate results page.

This page provides an estimation of your monthly allowance, in this case $1,553 per month. At the bottom of the page, you'll have the ability to recalculate your estimate and save your scenarios.

Jim: There may be times that you'll need to contact CalPERS. One of the best ways to contact CalPERS is through the Message Center in my|CalPERS website. Because your request comes from a secured site, behind your user name and password, in most cases, CalPERS will be able to provide a personalized response. You'll be notified by email that you have a message waiting in my|CalPERS Message Center. Simply log in to review the response.

If you have a general question, you can send it to us through CalPERS Online. You find this service through the Contact Us link in the upper right hand corner of our website. It’s important to remember that with this method, we can only provide general information. We can’t provide specific detailed information on your account.

You can always contact us by mail. When corresponding with CalPERS by mail, you should include your CalPERS ID or social security number. Keep in mind that the average response time is 30 to 60 days. Some inquiries, which require additional research may take longer.

You can call CalPERS at 888-CalPERS or 888-225-7377. Most questions can be answered in a few simple steps. Our CalPERS representatives are available from 8:00 to 5:00 Monday through Friday. In most cases, they can assist you in a single call. The busiest times to call CalPERS are the first of the month, Mondays and the day after a holiday, so you might want to avoid calling at those times if you can. Also, we now offer a callback feature so you can avoid waiting on hold.

Finally, you can visit one of our eight regional offices located throughout the state. Staff can assist you with a variety of services and educational events. You can schedule an appointment at one of our regional offices through my|CalPERS.

Before visiting our offices, we have some suggestions to help you get the most out of your time with us:

Take CalPERS classes and check out our on line retirement planning tools.

Read and complete any necessary forms or applications to the best of your ability.

Bring any supporting documents that may be needed.

And please, write down a specific list of any questions you may have.

Before you sign off today, we have a short survey we’d like you to complete. Please answer all of the questions as it’s important for us to get your feedback to help us improve these presentations.

Our presentation today was intended to give you a basic knowledge of the three retirement calculation factors. We hope this information has been beneficial in helping you prepare for the future and your retirement. Thank you for taking time out of your day to attend this webinar and have a great day.